

No Objection to Declassification in Full 2010/09/16 : LOC-HAK-424-3-2-5

Abstract

Analysis of situation
we face

ON-FILE NSC RELEASE
INSTRUCTIONS APPLY

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Public confidence Restored

Abuses must be prevented

What do we think problems are

Public ones or not ones

Why is Congress so tense?
Assault on authority.

'40 Committee
Look at meetings.

~~Hyman, Lewis, H. H.~~
Named committee

Bureaucratic shippers
Pres.

Strategic foreign policy
Prestige in world

Political analysis

3 DAY LOAN

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THE KIPLINGER WASHINGTON LETTER

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THE KIPLINGER WASHINGTON EDITORS

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MANAGEMENT & BUDGET

Dear Client:

Washington, Jan. 2, 1976.

It's time for some plain talk on the matter of gov't spending:
The promises to cut spending are bunk...whether Ford makes them or the members of Congress. They mislead people and raise false hopes.
Spending is going to RISE. Not by any piddling amount either, but by at least 20 billions. Even Ford's upcoming budget will make room for an increase in gov't spending of that amount over the current level. And when Congress gets through, the increase might even be double that.

You may want to keep this in mind when Congress returns soon and all the hoopla begins about budget cuts. Remember these figures: Spending is now running at 375 billions...for this fiscal year. In just the past two years, that represents a FORTY percent increase. Ford's new budget will be 395 billions, up a cool 20 billions for the fiscal year beginning next Oct. 1. (It's Oct. 1, not July 1.) So when you hear about cutting spending, don't be bamboozled. Translated, it means a continued RISE in spending but at a slower pace.

And listen for the howls to go up in Congress when it finds out where Ford proposes to curb the spending...which programs to curtail. This will be the forerunner of a fight that will last through elections.

Extension of the tax cuts is involved, those recently extended through the end of June. Ford will ask that they be made even larger, but that spending be "reduced" by the same amount. Dollar for dollar. A nice trap for the Democrats, since the voters are strongly in favor of both tax cuts and spending cuts. Will the Democrats dare to refuse?

Probable outcome: Taxes kept where they are until next Jan. 1. The budget held somewhat in check, but not at the Ford level... spending much higher than he is proposing, well above 400-billion mark. And red ink deeper than now, despite the talk of "austerity."

Why all the monkey business over the budget? Just politics?
Partly, yes. Ford fully realizes that this budget squabbling with a Democratic Congress will be a principal issue in the campaign, and will be going on before-during-&-after the political conventions. So he sees a chance to keep Democrats on the defensive the whole time.

But partly, it's Ford's own policy...to keep inflation at bay as much as possible during the business recovery. His economic aides regard the policy as central to preventing runaway inflation in '77-'78.

This issue will run through nearly all legislation in Congress.
Ford will veto the big railroad bill because of its huge cost... over 6 billions for Conrail, regional freight system. And to improve some passenger travel. The veto will come soon after Congress returns and probably will not be overridden. Hence, an immediate confrontation on gov't spending, the first of dozens between now and the elections.

Prospects for bills next session...in answer to many queries at the close of the last session. Note how many directly affect you:

Checking accounts in savings & loans have a chance of passing, and then both the S&Ls and banks will be able to pay interest on them. Senate has approved. The House may...if the lenders don't fall out.

Truth-in-leasing will pass, requiring full disclosure of terms for leasing of autos, trucks, big appliances. Details about payments.

No-fault auto insurance looks doubtful again. No consensus on whether it's needed, how it should work. And Ford is cool to the idea. Same for a new gov't consumer agency...odds are now against it.

Really TOUGH bill on consumer frauds is coming... fines and jail for deliberately luring people on bait-&-switch ads, phony comparisons with competitors' products, false endorsements, refusal to make refunds. Manufacturers, retailers and ad agencies better keep their eye on this.

And the consumer credit law will be strengthened to make sure no one is denied credit because of age, race, color, welfare status, etc. The maximum awards in class-action suits will be hiked for major lenders.

A big public works bill for states & localities... 5 billions for construction, repair, improvements...will pass. And then hit a veto. Essentially a make-work plan to sop up unemployment. Plus pork barrel. Very tempting in election year, so overriding Ford is a fair possibility.

"Tax reform" is likely to get fouled up later in the session. Wide disagreement on this & that provision...very complex, cumbersome. But Democrats in Congress are committed to tax reforms in this session, so some sort of compromise seems likely, tied to the tax cut extension.

National health insurance is unlikely... on any major scale. Much too expensive. Perhaps an agreement to expand medicare and cover catastrophic illnesses. Not just for aged, for everyone. Slim chance.

Jobless pay: Taxable wage base will be raised to about \$6000, and the tax rate to 3.4%. Law may also fix a floor on jobless benefits.

Job-injury pay: No federal standards. States are upgrading.

Minimum wage raise to \$3: Probably not, despite union support.

Advice to employers on job safety: May get stymied in Senate.

Bill lets firms request on-site consultation without fear of citation. But unions will fight it, lest small companies get complete exemption.

On energy bills, these show promise: Electric autos...new funds from gov't to keep research going. And an extension of gov't insurance for accidents related to nuclear power...needed to prod new development.

These will have trouble: Tighter rules on strip mining of coal. Permission to let private firms enrich nuclear fuel. Slurry pipelines for moving coal. (Coal-hauling railroads are trying to derail the bill.)

Deregulation of natural gas prices is bogging down in the House. Fear is that it would zoom up prices too fast. Even limited decontrol will have tough sledding...natural gas supplies not as short as expected.

Oil companies won't be broken up. No stomach for it in Congress.

Clean air deadlines will be eased for autos...and maybe plants.

Strikes by postal workers won't be allowed, or ANY gov't workers.

The old copyright law will be updated... giving longer protection.

Write us about other bills you're interested in. Glad to check for you.

January sales: The pickings will be slimmer than in past years. Most stores were fairly cleaned out by Christmas, beyond expectations, so don't have much inventory to sell off in traditional clearance sales. True bargains hard to find, for most price cuts will be limited. Chances are best in fashion clothing, some appliances and housewares. Note this about white sales and other winter price promotions: Much of the stuff is "special purchase" merchandise, bought specifically for the sales. Check the quality to see if it meets the usual standards.

Insurance is being eyed by the trustbusters. There's a suspicion that the industry's antitrust exemption may be choking off competition. Main focus is on rate-making... how companies decide their rates. Justice Dep't thinks maybe the process for setting charges for policies ought to be opened up somehow so they'll be brought down by competition. But if Justice decides to go ahead, Congress will have to OK any change.

Advertising by professional people for the services they provide is being trumpeted by gov't as a way to induce competition, lower fees. Lawyers may move first... gov't is pushing Bar Assn. to bless it. Physicians? Much vocal opposition...long court battle likely. Architects, engineers, veterinarians, accountants are up next. Gov't aims to have their professional organizations drop bans on ads. Take a hint, whatever professional group you may be a member of: Check out its code of ethics. Fee-fixing violates the antitrust laws, and the gov't claims that restrictions on competition are also illegal. Note: Professionals can't be FORCED to advertise. Many won't. Corrective ads: Fed. Trade is being taken to court on its order telling a firm to run ads confessing to misleading claims in the past. First court test of such FTC orders. Up to now, companies bowed to gov't.

Improvement in rail freight service: Sad to say, further delay for bankrupt NE and Midwest lines because of rail bill veto (see p. 1). Now certain that Conrail will not take over the bankrupts on schedule. Operations may gum up because executives won't know who's running what. Truck freight rates will jump in spring. Labor contract runs out end of March...teamsters driving for fat wage boosts in three-year pact. So count on rates increasing at least as much in 1976 as last year...7%. Recreational vehicles: Sales were bombed by the embargo on oil but are now on the climb. Makers look for a 15% rise this year...1976.

Budgeting business travel costs: Figure 10% higher room rates and 10% more for meals on the road this year. First-class travel is up, as companies relax recession's travel hold-down...a bit more freehanded. On trips to Europe, scheduled flights are being trimmed back. In their place, more One-Stop Tour Charters at considerably lower fares. Businessmen may have to plan ahead earlier to get on scheduled flights.

On withholding of taxes, use the current tax tables through June. On the package of forms sent by IRS, check to see if everything you need is included. Some taxpayers will have to order forms direct... housing credit, moving expenses, dependent care, casualty losses, etc. As for taxes generally, remember two freebies put out by the IRS that can save you time and some money, maybe. You can get single copies of "Your Federal Income Tax" and the "Tax Guide for Small Business" from local IRS offices. Available MID-January, earlier in some offices.

Watch for the gov't to step up its jawboning on wages and prices, via the Council on Wage and Price Stability. Spotlighting and chastising industries and unions that "ignore the public interest" in their actions.

Some lines will get special surveillance: Steel, aluminum, lead, zinc. Chemicals. Food processors. Farm machinery. Auto parts. Others.

And these unions...teamsters, rubber workers, electrical workers, and especially auto workers. All will be negotiating new wage contracts.

Aim is to create an ATMOSPHERE of restraint with a ripple effect on wage and price decisions throughout the economy. Gov't has no power to set ceilings or reverse increases. But by citing "horrible examples," it hopes to induce second thoughts on pricing policies, labor demands.

Jawboning hasn't worked in the past, and it probably won't now. But Ford's people are willing to grasp any straw to give the appearance of action, and thereby mollify voter ire over rising prices. Weak reed.

The drop in ownership of stocks certainly comes as no surprise.

But note: Tumble was in ownership of over-the-counter stocks, those that are generally floated by smalls and mediums for expansion. May mean that this source of venture capital is in danger of drying up. Thus a check on the kind of vigorous growth basic to a strong upturn.

Stocks in multinational companies: Profits of foreign branches are going to be hit by the limping economies in most parts of the world. And the strong dollar means that what is earned in foreign currencies is worth less after conversion. Weigh this in your investment plans.

Angola: It's just one part of the Russian worldwide strategy. A small country, torn by internal strife, hence there for the picking.

The Russians already are at work in other areas. Among these: Thailand. Malaysia. The former Trucial States along the Persian Gulf... a key water route for Mideast oil. Lebanon...weapons for the Moslems.

Not Russian troops, but arms, supplies, military advisers, etc.

The list will grow, Ford and his advisers are convinced of this. Unless the U.S. takes a stand, stops the advance in its tracks. They see further mischief in other African nations, in South America, perhaps Indonesia. The weaker our response, more emboldened the Reds.

Senate doesn't agree, at least as far as Angola is concerned. In effect, there is no clear U.S. policy. Which is not true of Russia.

Back to Congress. It is set to assume a bigger role in gov't. To this end, a number of planning and advisory groups will be set up.

An agency on supply shortages is operating now...the kickoff.

Think tank of outside experts is coming to advise on big issues.

A long-range planning agency is being talked, to look far ahead at the impact of current legislative proposals...costs v. the benefits.

And, of course, new budget controls to put a rein on spending.

It will take time, but future Congresses will have much more say on gov't policies. The rubber stamp days are over...under any President.

Yours very truly,

Austin Kiplinger
THE KIPLINGER WASHINGTON EDITORS

Jan. 2, 1976

THREE PRINCIPAL OBJECTIVES

- . Dramatic demonstration of the reassertion of Presidential responsibility and leadership in the intelligence field.
- . Assuring the public that their rights and privacy are protected through adequate supervision.
- . Assuring the public that national security is protected by an effective intelligence community.

PROGRAM A - COMPREHENSIVE ACTION THROUGH LEGISLATION

Organization and Management

Legislative initiatives

- . Create a new intelligence agency, headed by a Director of Intelligence, with resource and line control over all national programs, military and civilian.
- . Further option: separate covert action and possibly clandestine collection from new intelligence agency.

Oversight and Restrictions

Legislative initiatives

- . Statutory restrictions on FBI and foreign intelligence community.
- . Give CIA intelligence role, domestic and foreign; limit FBI to investigation for prosecution only.
- . Create a community-wide Inspector-General.

PROGRAM B - INTERMEDIATE-RANGE ACTION THROUGH LEGISLATION

Organization and Management

Legislative initiatives

- . Create a Director General of Intelligence with control over allocation of resources, but without line control.
- . Further option: Separate production from collection by creating a new national analytic capability.

Oversight and Restrictions

Legislative initiatives

- . Combination of statutory and administrative restrictions on FBI and foreign intelligence agencies.
- . Create a community-wide Inspector General.

PROGRAM C - COMPREHENSIVE REORGANIZATION BY ACTION OF
THE PRESIDENT

Organization and Management

Non-legislative initiatives

.. One of the following:

- . Creation of Director of Foreign Intelligence (in White House), separated from operations, who would coordinate intelligence activities but have no voice in allocation; or
- . Give OMB authority to act as bridge between producers and consumers of intelligence; or
- . Strengthen authority of NSC over allocation of resources; or
- . Strengthen authority of DCI over allocation of resources.

.. Strengthen analytic and production capability of each agency in community.

Oversight and Restrictions

Non-legislative initiatives

- . Issue Executive Order restricting foreign intelligence agencies, except FBI.
- . Issue Executive Order restricting FBI.
- . Upgrade (or create) Inspector General in each agency.
- . Delegate oversight authority for intelligence community to Attorney General.

PROGRAM D - COMPREHENSIVE CONTROL THROUGH ACTION BY
THE PRESIDENT

Organization and Management

Non-legislative initiative

- . Create a second Deputy Director of Intelligence, to handle management and administration of the CIA.

Oversight and Restrictions

Non-legislative initiatives

- . Issue Executive Order restricting domestic activities of foreign intelligence agencies.
- . Presidential announcement of CIA Commission recommendations already implemented by DCI.
- . Issue Executive Order authorizing PFIAB to act as Executive Branch oversight body.
- . Announce new membership of PFIAB.
- . Direct Attorney General to issue regulations restricting FBI.
- . Presidential call for a joint select Intelligence Committee of Congress to assure secrecy and continuity, particularly with respect to covert actions.